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Our three calls for rates in 2022

Negative rates will remain a major feature of 2022 but we are already seeing some significant movement

A screen showing market data in Shanghai, China

1 US 10yr to hit 2%

The last time the US 10yr was at 2% Covid was a remote, even unlikely issue at the end of 2019. Even with variants hitting us as we head into 2022, the pull of inflation should help to drag us back up there again. It's a tough one though, as persistent demand for core fixed income remains in play, practically regardless of price. Buying bonds continues to come with deep negative real rates. These will shrink as 2022 progresses, but even by the end of 2022, negative real rates will remain in play right out to beyond the 10yrs maturity.

2 Eurozone 10 year swap rate to breach 50bp

If the US 10yr hits 2%, the Eurozone 10yr swap rate should get to 50bp at least. It's not been there since the second quarter of 2019 and, in a way, this is a bigger call. It requires a repeat of the rise in the 10yr rate seen in 2021, and that was quite a heavy lift. This should help pull the 5yr structurally back above zero too, but rates with maturities of 3yrs and below will likely remain negative throughout the year, held back by the -50bp depo rate, which is on a promise not to be touched in 2022.

3

Curves to steepen, but 2022 should be dominated by ultimate flattening

The driver here is the Federal Reserve. Room should be made for hikes, with the US 10yr pivoting higher first. But from there, front end rates in both the US and the eurozone should come under upward pressure, re-flattening curves. This will be led by the US 2yr, with its spread versus the Eurozone 2yr coming under widening pressure. The same should happen in ultra-short maturities once the US debt ceiling is raised as liquidity is taken out of the system.

Author

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com